

Message Text

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ACTION ARA-10

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 6170

C O N F I D E N T I A L LIMA 6233

STADIS//////////

E.O. 11652: GDS

TAGS: EINV, EMIN, EGEN, PE

SUBJECT: SOUTHERN PERU COPPER CORPORATION CONCERNS OVER
MARCONA EXPROPRIATION

1. FRANK ARCHIBALD, CHAIRMAN SPCC, ACCOMPANIED BY PHILIP WALSH, DIRECTOR OF SPCC, CALLED ON THE AMBASSADOR AUGUST 1. TO DISCUSS RAMIFICATIONS FOR SPCC OF MARCONA NATIONALIZATION. ARCHIBALD EXPRESSED SPCC AND ASARCO MANAGEMENT'S CONCERN OVER MARCONA NATIONALIZATION, AND NOTED FURTHER THAT THE NEW YORK FINANCIAL COMMUNITY IS ALSO UPSET.

2. ARCHIBALD NOTED THAT SPCC HAS NOW DRAWN DOWN \$477 MILLION OF THE \$570 MILLION TOTAL FINANCING FOR CUAJONE (THIS AMOUNT DOES NOT COUNT INTEREST PAYMENTS), INCLUDING \$45 MILLION OF THE EXIMBANK LOAN AND GUARANTEE AS WELL AS THE ECGD LOAN. HE COMMENTED THAT IF MOST OF THE PACKAGE HAD NOT BEEN DRAWN DOWN, THE SMALLER BANKS IN THE ORIGINAL LENDING CONSORTIUM MIGHT HAVE BEEN TEMPTED TO PULL OUT OF THE PACKAGE BECAUSE OF THE MARCONA NATIONALIZATION. HE REITERATED, HOWEVER, THAT THIS EVENTUALITY IS NO LONGER POSSIBLE. HE ALSO NOTED THAT CUAJONE HAS NO INSURANCE OF ANY KIND AGAINST EXPROPRIATION.

3. THE AMBASSADOR REVIEWED CURRENT STATUS OF MARCONA CASE WITH THE SPCC OFFICIALS IN SOME DETAIL, NOTING THAT AT THIS STAGE THE EMBASSY IS ATTEMPTING TO CONVINCE THE GOP OF THE NEED TO NEGOTIATE AN AMICABLE SETTLEMENT UNDER
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TERMS ACCEPTABLE TO BOTH SIDES.

4. COMMENT: NEITHER SPCC OFFICIAL THINKS EXPROPRIATION OF SPCC LIKELY IN THE NEAR FUTURE. ARCHIBALD COMMENTED ON FACT THAT A CLOSE FRIEND, A PERUVIAN MILITARY OFFICER, INFORMED HIM RECENTLY THAT SOME WITHIN THE GOP HAD BEEN THINKING OF CREATING A "COBRE-PERU" WITH SPCC'S ASSETS, BUT REALIZE THAT THE IMPACT OF A SEIZURE OF CUAJONE AND TOQUEPALA WOULD BE DISASTROUS FOR PERUVIAN COPPER MINING, AND THE COUNTRY'S OVERALL CREDIT RATING. ARCHIBALD ALSO EXPRESSED SPECIFIC INTEREST IN WHETHER THE USG MIGHT SHUT OFF THE EXIM WINDOW TO PERU OVER THE MARCONA ISSUE. THE AMBASSADOR COMMENTED THAT IT IS PREMATURE TO PREDICT WHAT STEPS THE USG MIGHT CONTEMPLATE, BUT IN ANY CASE WE BELIEVE IT WOULD BE UNLIKELY THAT EXIM WOULD SUSPEND THE REMAINING \$35 MILLION PORTION OF THE EXIM CREDITS STILL DUE TO BE DISBURSED TO SPCC, ALTHOUGH ONE EVENTUALITY MIGHT BE THE SUSPENSION OF OTHER EXIM CREDITS TO PERU. WHILE BOTH ARCHIBALD AND WALSH APPEARED TO BE RELATIVELY OPTIMISTIC THAT THE GOP WILL NOT MOVE AGAINST SPCC ANY TIME SOON, THEY REALIZE FULL WELL THAT A MAJOR CONFRONTATION OVER MARCONA COULD SERIOUSLY AFFECT THEIR INTERESTS HERE AS WELL.
DEAN

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